

*Student  
Financial  
Assistance*



## Financial Partners Channel

*Risk Modeling Conceptual Design*



## **Statement of Purpose**

This report is intended to describe a risk model conceptual design that can be implemented to enhance monitoring of Financial Partners. The risk model was developed to provide an objective measure of FP performance in order to support SFA's risk management initiatives.

- The risk modeling effort involved assessing the current environment and availability of data to measure FP performance; identifying indicators of performance and risk factors; and, developing measures and benchmarks to calculate performance scorecards for Guaranty Agencies, Lenders and Servicers.
- The risk model is intended to enhance the oversight function, in conjunction with the trend analysis, review processes and technical assistance functions performed by the FP Channel Oversight groups.



## Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Model

Technical Requirements

Implementation Strategy



## Overview - Business Context

**The Financial Partners Channel initiated a project to identify their requirements related to risk modeling in order to provide enhanced monitoring of Financial Partners. During this project, the team identified the best practices, analyzed the requirements, and developed a risk model design to support the requirements.**

- In initiating this project, the Channel desired to address some challenges existing in the current environment:
  - Focusing oversight monitoring and review processes associated with financial risk to the Department of Education.
  - Accessing and analyzing data pertaining to Financial Partner performance in an efficient and timely manner
- The goal of this project is to identify the best in business practices and technology for the development of risk modeling procedures and tools that will enhance the predictive and monitoring value of GA and Lender and Servicer reviews.
  - Identifying major risk factors
  - Defining performance indicators that can be used to systematically track Financial Partner operating and financial performance relative to SFA's objectives of reducing unit costs, improving customer satisfaction, and improving employee satisfaction.
  - Developing an effective risk model conceptual design that will assist the Analysis and Oversight group to monitor its Financial Partners, both efficiently and effectively



## Overview - Business Context - continued

**The Risk Modeling effort included agreement on terminology to ensure consistent design.**

- **Benchmarks** - The standards by which the risk criteria results are measured.
- **Data Requirements** - The source data entered into the risk model for each entity to determine risk estimation (as compared with the benchmarks).
- **Performance Indicators** - The measures of performance that are determined to accurately measure and predict performance and risk levels.
- **Risk Factors** - The indicators that are considered to assess risk modeling results, such as Size of the portfolio, Loan Volume (by program, by school.), and Source of Reporting.
- **Risk Criteria** - The indicators used to rate the organizations in order to track and predict performance within the risk model, such as change in Federal fund, delinquency rates, default rates, etc.
- **Triggers** - Those criteria that have been designated to be important and critical in identifying exposure (i.e., a trigger can initiate a review regardless of ratings on other criteria or scheduled review cycle).
- **xValue** - The importance (or value) of the performance indicator multiplied by the score received.



## Overview

Current Environment

Improvement Opportunities

Functional Requirements

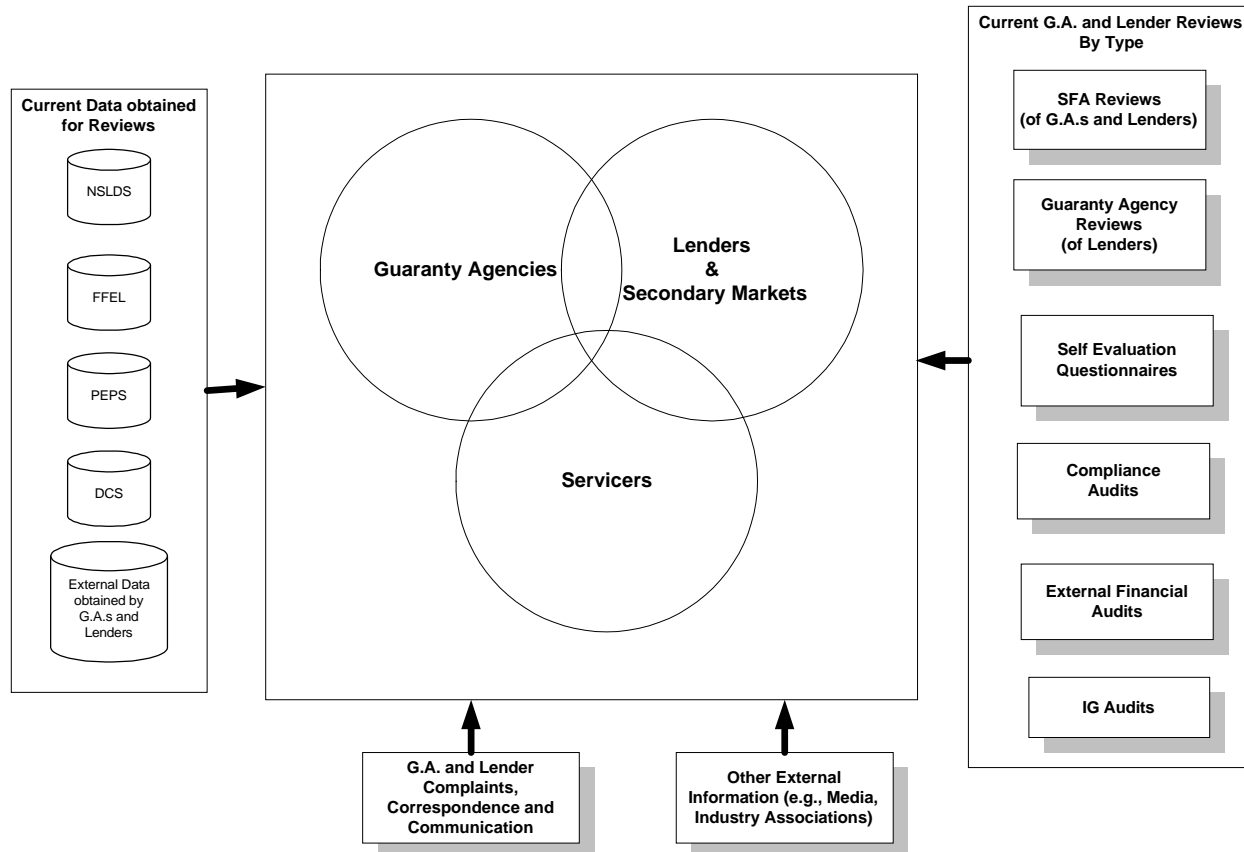
Conceptual Design

Technical Requirements

Implementation Strategy

## Current Environment

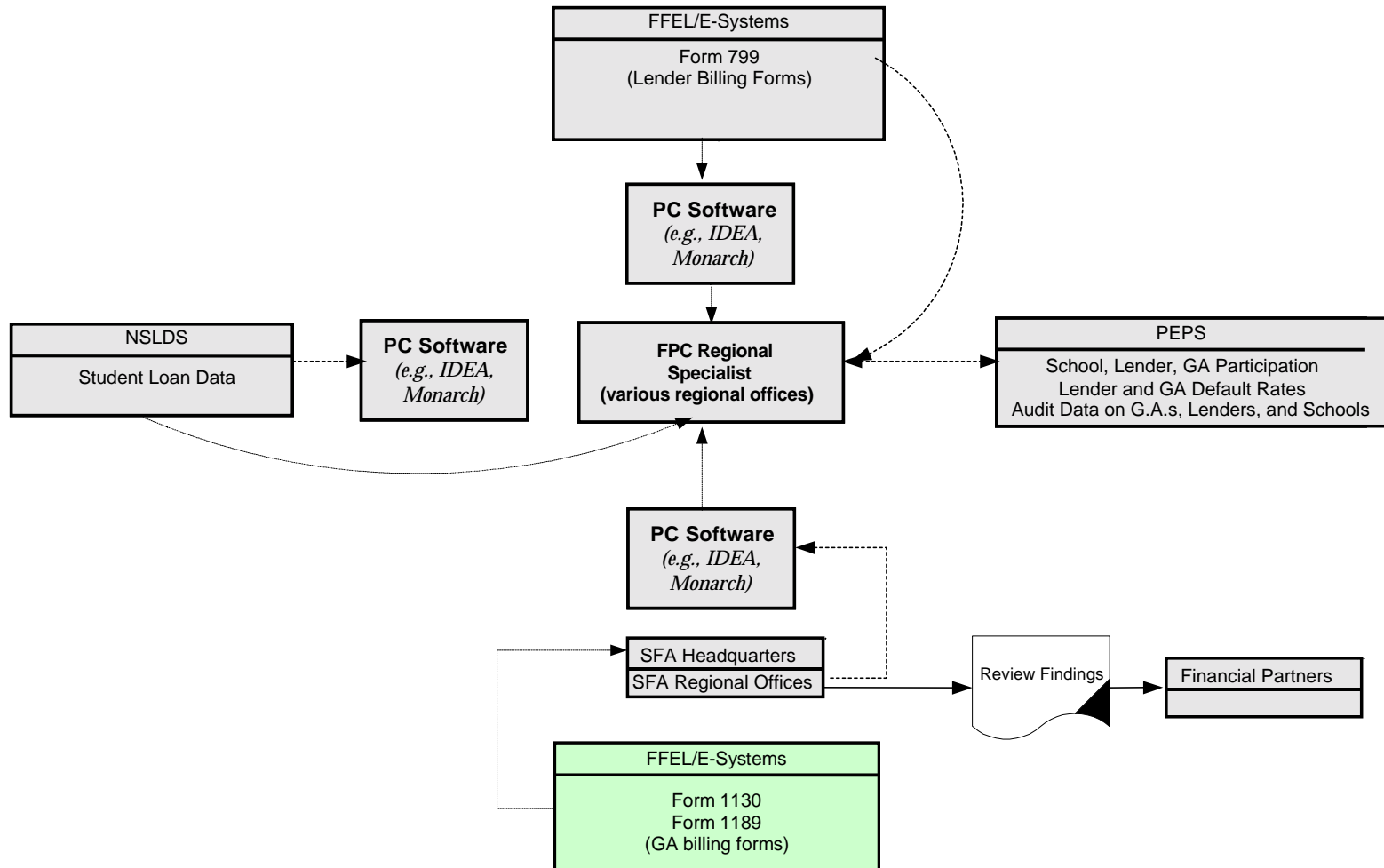
Currently, the Financial Partners are required to undergo numerous audits and reviews by various agencies and organizations. The associated data and results are currently stored in a variety of systems and hardcopy documents. This creates challenges both for the SFA Oversight groups and the Financial Partners.





## Current Environment - continued

The current Oversight environment involves numerous systems, PC-based workarounds, and manual (hardcopy) exchange of information







Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Design

Technical Requirements

Implementation Strategy



# Improvement Opportunities

Best Practices	Current FP Practices	Ranking	Opportunity
Performance measures are able to accurately measure performance indicators that can be used for predicting future performance through risk modeling and trend analysis.	Currently, no risk modeling or standardized trend analysis is conducted.	○	Develop an automated Risk Modeling tool that will support routine, standardized FP performance trend analysis
Organizational information /data bases should be accessible to organizational members who are responsible for their actions.	Currently, the data that would be useful to the Oversight group is wide dispersed across systems (and hardcopy reports) and not easily accessible.	○	The data required by the Oversight group needs to be made accessible and validated prior to use in risk modeling.
Performance measures are consistently and accurately measured across samples and over time.	Currently, reviews rely on various reports (e.g., financial statements, audits, NSLDS, PEPS data), depending on accessibility and use proficiency.	◐	Develop standard criteria and automate routine downloads and reports used in reviews, e.g., PEPS, NSLDS, FFEL/FMS, etc.

- Key:
- Current FPC practices correspond with best practices
  - ◐ Current FPC practices partially follow best practices
  - Current FPC practices do not correspond with best practices



## Improvement Opportunities - continued

Best Practices	Current FP Practices	Ranking	Opportunity
Performance monitoring should be well defined and focus on performance requirements, task criticality, task cost/criticality ratio, and available resources (e.g, 100% inspection, random sampling, customer input).	Currently, performance monitoring is not well-defined or focused on performance requirements, task criticality, task cost/criticality ratio, and available resources.	○	Establish a Quality Assurance program across Channels to be able to monitor operational and financial performance in Coordination with the FP Channel Oversight review Function.
Financial management functions are considered in measuring performance including investment, transaction, and cash management.	Currently, performance tracking does not consist of investment, transaction and cash management factors.	○	Develop standard review criteria To emphasize return on investment (e.g., top 100 lenders, Multi-lender servicers, etc.

Key:

- Current FPC practices correspond with best practices
- ◐ Current FPC practices partially follow best practices
- Current FPC practices do not correspond with best practices



Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Design

Technical Requirements

Implementation Strategy



# Functional Requirements

**Risk modeling functional requirements consist of determining risk factors associated with the FPs, including G.A.s, Lenders and Servicers.**

## **Guaranty Agency Risk Factors**

- Federal Fund decreases of more than average or by a significant percentage year- to-year
- Operating Fund increases of more than average or by a significant percentage year- to-year
- Decreasing volume (e.g., track volume by school type)
- Increasing default payments
- Cohort Default Rate
- Net Default Rate (I.e., net of all eventual collections)
- Fluctuations in collections
- Borrowing
- System changes
- NSLDS reporting problems ( High error rates, failure to report on lender held loans, failure to report on agency held loans, high numbers of un-updated loans, etc.)
- Audit report findings
- Program review findings (care must be taken in weighting these areas; if past reviews and audits are given high values, these agencies will jump to the top of the risk model and we successfully will have predicted the past.)
- Number of complaints
- Variances between form 2000 submissions



# Functional Requirements - continued

## **Lender Risk Factors**

- Cohort Default Rate
- Net Default Rate (i.e., net of all eventual collections)
- Variances between increases in volume and amounts reported for origination fees
- Numbers and percentages of loans showing out of school more than six months but still carrying an in-school or in-grace category
- Lender fees
- Purchases
- Lost guaranty/uninsured loans
- Complaints
- Various studies of ED799 and problems submitting ED799.( Large amounts of capitalized interest, reinstated guarantees, large percentages of volume changes,etc.) including degree of lateness (length of time)
- Audit Report findings
- Program review findings (care must be taken in weighting these areas; if past reviews and audits are given high values, these entities will trigger the risk model and we successfully will have predicted the past)
- Rejected claims
- Change in Servicers



## Functional Requirements - continued

### **Servicer Risk Factors**

- Number of complaints from the ombudsman, agencies, regions, or congress
- Significant changes in organizational structure
- Cohort Default Rate
- Default rates
- Delinquency rates
- Variances in volume serviced, both up and down, should be tracked separately
- Percentage volumes of loans in the various uninsured categories need to be tracked
- External Audit Report/prior program review findings
- Program review findings (care must be taken in weighting these areas; if past reviews and audits are given high values, these entities will trigger the risk model and we successfully will have predicted the past)
- Loan portfolio characteristics
- Capitalized interest
- Percentages of uninsured/lost guaranty loans
- Required financial ratios (in accordance with regulations)



## Functional Requirements - continued

**Define the eligible review population, including G.A.s, Lenders and Servicers and their associated organizations to ensure that all FPs are adequately and efficiently monitored.**

- Obtain an accurate listing of all associated G.A.s, Lenders and Servicers on a quarterly basis to determine SFA contact and monitoring responsibility.
- Determine eligibility for reviews by type, for example:
  - Small, self-serviced lenders (i.e., less than \$100,000 portfolio) should receive desk reviews only and should be reviewed primarily by G.A.s.
  - “Origination only” lenders (e.g., Hometown Programs) should initially receive desk reviews.
  - Large multi-lender servicers should be reviewed in context of all the Lenders they service, rather than in relation to specific lenders (e.g., random borrower samples).
  - Large multi-guarantor lenders should be a focus of SFA reviews.





Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Design

Technical Requirements

Implementation Strategy



## Conceptual Design

**The goal of the Risk Model is to identify any areas in Financial Partner performance that will require additional reviews or research outside of a regularly scheduled review process to ensure continued success for both the Financial Partners (Guaranty Agencies, Lenders and Servicers) and SFA.**

- Each of the identified Performance Indicators is assigned a value of importance in determining performance; 1 being “Low” as a stand-alone determining factor and 5 being “High” as a stand-alone determining factor.
  - The higher the value, the higher the concern regarding financial risk to SFA, i.e., a ‘red flag’ or “trigger “ for review.
  - The lower value indicators are of less concern, unless there is an indicator that cannot be explained from a logical business justification (e.g., delinquency rates increase due to a large purchase from a lender who is not performing well in that area), i.e., a yellow flag or need for further investigation.
  - If a FP under review receives at least one trigger during the risk model scoring, that organization will receive a review.
- A “Score Card” ultimately will be generated using these Performance Indicators to estimate SFA’s financial risk for each of the Financial Partners. This will help to focus reviews on potential problem areas and, ultimately ensure improved FP performance.



## Conceptual Design

**Although the size of the portfolio is not an indicator of performance per se, it bears directly on the financial exposure of SFA (e.g., a large lender with a moderate to high default rate is a larger risk to SFA than a small lender with a high default rate).**

**Therefore, the Risk Model has been designed to factor:**

- The size of the loan portfolio, and
- The performance of the Financial Partner, as measured by the performance indicators.

**This two-step process is intended to assess performance relative to the associated financial risk to SFA.**



# Conceptual Design

The sample Risk Modeling scorecard documents the type and size of the organization, the overall score and performance area specific scores, and any triggers that would require further evaluation on the part of the reviewer. Refer to the Details for Performance Indicators for specific scoring ranges and triggers for poor ratings.

<b>Organization Type:</b>		<b>Total Loan Portfolio (\$):</b>	\$1,000,000,000		
		<b>Level of FFEL Participation:</b>	8		
<b>Organization Name:</b>		<b>Score:</b>	84%		
<b>Address:</b>		<b>Review Trigger:</b>	NO		
		<b>Code:</b>			
<b>Contact</b>		<b>ID:</b>			
<b>Telephone</b>					
<b>Facsimile</b>					

	Value	Performance Indicators	Measures	Possible Points	Points Scored	Trigger
	5	Change in Federal Funds	% Change over time to measure increase or decrease of fund	25	25.0	No
	5	Federal Funds vs Reserve Funds	Federal fund/Reserve fund	25	20.0	No
	4	Change in Operating Funds	% Change over time to measure increase or decrease of fund	20	10.0	No
	3	Change in Restricted Funds	% Change over time to measure increase or decrease of fund	15	15.0	No
	3	Portfolio Characteristics	% Change over time to measure increase or decrease of loan Volume	15	7.5	No
	1	Change in Error rates	98% Edit Pass Rate	5	1.0	N/A
	2	Program Review/Audit Findings	Outstanding Audit findings	10	10.0	No
	3	Number of Complaints	Volume of complaints annual	15	15.0	No
	3	Change in Default Rate	% Change over time to measure increase or decrease of the default rate	15	12.0	No
	4	Rate of Reinsurance	Trigger %	20	20.0	No
	3	Trend analysis of Rejected Claims	% Change in rejected claims over time	15	15.0	No
	2	Claims/ Payment- History	% Collection to total defaulted loan portfolio	10	5.0	No
	2	Claims/ Payment- Age	Age of claims	10	10.0	No
	4	Significant Change in Organizational Structure	Bankruptcy/Closure Merger/Consolidation	20	20.0	No
	2	Loan Status	Volume and % of loans out of school more than six months but still carrying an in school or in grace category	10	8.0	No
			<b>Score Total</b>	230	193.5	
			<b>Percent Score</b>		84%	



# Conceptual Design

The sample risk model shown below provides an example of the scorecard weighted by size of portfolio. In this example, a Lender with a \$100,000 loan portfolio (Part I) would be weighted as a “2” and would therefore need to receive a percentage score of 50% or better to “Pass” the review (Part II):

## Part I

Level of FFEL Participation					
Weighting	Range			Total Loan Volume	Level of FFEL
				\$1,000,000,000	8
5	\$10,000,001	\$50,000,000			
6	\$50,000,001	\$100,000,000			
7	\$100,000,001	\$500,000,000			
8	\$500,000,001	\$1,000,000,000			
9	\$1,000,000,001	\$10,000,000,000			
10	\$10,000,000,001	\$100,000,000,000			

### Total Overall weighting of Organization to be reviewed

## Part II

FFEL Rating	% Score for Audit		Score Pass/Fail	FALSE
10	90	100	FALSE	
9	89	100	FALSE	
8	88	100	FALSE	
7	86	100	FALSE	
6	83	100	FALSE	
5	80	100	FALSE	



## Conceptual Design - continued

**High Value Performance Indicators (4 or 5 out of 5) include:**

Value	Performance Indicators	Guaranty Agencies	Lenders	Servicers
5	Change in Federal Funds	X		
5	Federal Fund vs. Reserve Fund	X		
4	Rate of Reinsurance	X		
4	Change in Operating Funds	X		
5	Lost Guaranty/Uninsured Loans		X	
4	Changes in Organizational Structure	X	X	X



## Conceptual Design - continued

### Medium Value Performance Indicators (3 out of 5) include:

Value	Performance Indicators	Guaranty Agencies	Lenders	Servicers
3	Change in Restricted Funds	X		
3	Origination Fees		X	
3	Lender Fees		X	
3	Federal Interest Benefits		X	
3	Special Allowance Payments		X	
3	Capitalized Interest		X	X
3	Purchases		X	
3	Sales		X	
3	Portfolio Characteristics	X	X	X
3	Number of Complaints	X	X	X
3	Change in Default Rate	X	X	X
3	Cohort Default Rate	X	X	X
3	Delinquency Rate		X	X



## Conceptual Design - continued

**Lower value Performance Indicators (1 or 2 out of 5) include:**

Value	Performance Indicators	Guaranty Agencies	Lenders	Servicers
2	Loan Status	X	X	
2	Change in Servicer	X	X	
2	Problems submitting ED799		X	
2	Trend analysis of Rejected Claims	X		
2	Claims Payment – History	X	X	
2	Claims Payment - Age	X	X	
2	Program Review/Audit Finding	X	X	X
2	EDP Review Finding	X	X	X
1	Change in Error Rates	X	X	X





## Details for High Performance Indicators

### Change in Federal Funds - Value 5

**Financial Partner:** Guaranty Agencies

**Risk factors/ criteria:** Total reduction in federal fund

**Measures:** Federal fund increases and decreases over time

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>
Any Increase	5	25
No Increase or No Decrease	4	20
Decrease 0-5.99%	2.5	12.5
Decrease 6-10%	1.5	7.5
Decrease >10%	1	5

**TRIGGER**

**Data Requirements:** Federal Fund amount

**Data Source:** FMS (Form 2000)

**Issues/Comments:** Recent change in Federal Fund calculations



## Details for High Performance Indicators - continued

### Federal Funds vs. Reserve Fund - Value 5

**Financial Partner:** Guaranty Agencies

**Risk factors/ criteria:** Federal fund greater than one year reserves

**Measures:** Federal Fund amount vs. Reserve Fund by FY

SFA Benchmarks:	Points	xValue	TRIGGER
Greater then 1.5	5	25	
Greater then 1.0	4	20	
Equal to 1.0	2.5	12.5	
Less then 1.01	5	5	

**Data Requirements:** Federal Fund amount / Reserve Fund

**Data Source:** FMS (Form 2000)

**Issues/Comments:** Recent change in Federal Fund calculations



## Details for High Performance Indicators - continued

### Lost guaranty/uninsured loans - Value 5

<b>Financial Partner:</b>	Lenders		
<b>Risk factors/ criteria:</b>	Percent of loans with potential servicing/due diligence problems		
<b>Measures:</b>	% defaulted loans with lost guaranty		
<b>SFA Benchmarks:</b>		<b>Points</b>	<b>xValue</b>
	< 0.5%	5	25
	0.5 to 1.0%	2.5	12.5
	> 1.0%	1	5
			<b>TRIGGER</b>
<b>Data Requirements:</b>	Total and % Claims filed - Paid vs. rejected Voided Loans (reported on ED 799)		
<b>Data Source:</b>	NSLDS, FFEL		
<b>Issues/Comments:</b>	None		



## Details for High Performance Indicators - continued

### Change in Restricted Funds - Value 4

**Financial Partner:** Guaranty Agencies

**Risk factors/ criteria:** Restricted fund should increase over 5 year period (to 2003)

**Measures:** Over 3-5 year period

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Any Increase	5	15	
No Increase/No Decrease	4	12	
Decrease 0-5%	2.5	7.5	
Decrease 5-15%	1.5	4.5	
Decrease > 15%	1	3	<b>TRIGGER</b>

**Data Requirements:** Restricted Fund amount by FY

**Data Source:** Form 2000

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Rate of Reinsurance - Value 4

**Financial Partner:** Guaranty Agencies

**Risk factors/ criteria:** 98% Trigger

**Measures:** Trigger %

SFA Benchmarks:	Points		xValue	
95% - 98%	5	20		
<88%	1	4		<b>TRIGGER</b>

**Data Requirements:** Reimbursement % rate for claims based on FY default rate

**Data Source:** NSLDS

**Issues/Comments:** Cohort default rate have issue regarding timeliness of data from NSLDS



## Details for High Performance Indicators - continued

### Change in Operating Funds - Value 4

**Financial Partner:** Guaranty Agency

**Risk factors/ criteria:** Total reduction in operating funds

**Measures:** Change in percent of Operating fund over time

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Any Increase	5	20	
No Increase/No Decrease	4	16	
Decrease 0-5%	2.5	10	
Decrease 5-10%	1.5	6	
Decrease 10% or More	1	4	<b>TRIGGER</b>

**Data Requirements:** Operating Fund amount by FY

**Data Source:** Form 2000

**Issues/Comments:** Recent split of Federal and Operating Funds



## Details for High Performance Indicators - continued

### Change in Organizational Structure - Value 4

**Financial Partner:** Guaranty Agency, Lenders, Servicer

**Risk factors/ criteria:** Change in organizational structure

**Measures:** Stability of organization

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
No Significant Change	5	20	
Merger/Consolidation	1	4	
Bankruptcy/Closure	1	4	<b>TRIGGER</b>

**Data Requirements:** New

**Data Source:** New

**Issues/Comments:** Financial Audit Reports are currently submitted and tracked manually



## Details for High Performance Indicators - continued

### Origination Fees - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Under-billing of fees

**Measures:** Variances between increases in volume and amounts reported for Origination fees

<b>SFA Benchmarks:</b>	<b>points</b>	<b>xValue</b>	
No variance	5	15	
Variance (Positive or Negative)	1	3	<b>TRIGGER</b>

**Data Requirements:** ED 799 (Loan Principal Disbursed compared to 799 Part 2, for corresponding loan types, ED 799 Part 6)

**Data Source:** FFEL

**Issues/Comments:** None





## Details for High Performance Indicators - continued

### Lender Fees - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Late fees

**Measures:** Principal reported for Lender fees and Origination fees should be equal

SFA Benchmarks:	points	xValue	
No variance	5	15	
Variance (Positive or Negative)	1	3	<b>TRIGGER</b>

**Data Requirements:** ED 799 ((LID by Loan Type)

Fee Code FN or LN and the principal amount should equal

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Federal Interest Benefits - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Variable Interest rates should vary over time.

**Measures:** No change in variable interest rate is bad

SFA Benchmarks:	Points		xValue	
	Change	5	15	
	No change	1	3	<b>TRIGGER</b>

**Data Requirements:** Lender No. by Loan Type : Interest Rate and Ending Principal Balance Field, over the time period

**Data Source:** FFEL

**Issues/Comments:** Ed 799 Part III



## Details for High Performance Indicators - continued

### Special Allowance Payments - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Special Allowance, Adjustments to ED799

**Measures:** Adjustment amounts and frequency of adjustments over time

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Positive	5	15	
Negative	1	3	<b>TRIGGER</b>

**Data Requirements:** 799 Part 4 vs. 6 (Total Ending Prin Bal) Spallow\_Adjustments by Spallow\_Loan\_ Type by Spallow\_Spec\_ Allowance\_ Categ by Spallow\_Int\_Rate

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Capitalized Interest - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Lender sales will affect ED payment to Lender

**Measures:** Significant increases in cap interest over time (loans not up to date are being adjusted)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
0-9%	5	15	
10-20%	2	6	
> 20%	1	3	<b>TRIGGER</b>

**Data Requirements:** LID by CALL\_RPT\_LOAN\_TYPECALL\_RPT\_INT\_CAPITALIZED,  
Bill Period (year)

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Purchases - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Lender purchases will affect ED payment to Lender

**Measures:** Sale or transfer of loans within the quarter in which the loan was disbursed

SFA Benchmarks:			Points	xValue	TRIGGER
	Equal to or <\$1,000,000	Purchases >\$1,000,000	5	15	
			1	3	

**Data Requirements:** LID by CALL\_RPT\_LOAN\_TYPE, CALL\_RPT\_PRIN\_LOANS\_Purchased, Bill Period

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Sales - Value 3

**Financial Partner:** Lenders

**Risk factors/ criteria:** Lender sales will affect ED payment to Lender

**Measures:** Ratio of Sales/ Origination (>1.0)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Ratio < .5	5	15	
Ratio .5 - 1.0	2.5	7.5	
Ratio >1.0	1	3	<b>TRIGGER</b>

**Data Requirements:** LID by CALL\_RPT\_LOAN\_TYPE, CALL\_RPT\_PRIN\_LOANS\_SOLD,  
Bill Period (Year)

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Portfolio Characteristics - Value 3

**Financial Partner:** Guaranty Agency, Lenders, Servicers

**Risk factors/ criteria:** Large fluctuations in portfolio levels

**Measures:** Percent change in loan volume over time (3-5 years)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Increase >10%	5	15	
Increase 0-10%	4	12	
No Increase/No Decrease	2.5	7.5	
Decrease 0-5%	1.5	4.5	
Decrease 5-10%	1	3	No Trigger
<b>Data Requirements:</b>	Total disbursements of all loans by FY		

**Data Source:** Form 2000  
FFEL vs. NSLDS  
PEPS

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Number of Complaints - Value 3

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** High number of complaint indicate poor customer service

**Measures:** Number of complaints annually

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
0	5	15	
1-10	4	12	
11-25	2.5	7.5	
26-50	1.5	4.5	
> 50	1	3	<b>TRIGGER</b>

**Data Requirements:** Number of complaints by borrowers or constituents

**Data Source:** Ombudsman System - New

**Issues/Comments:** New requirements





## Details for High Performance Indicators - continued

### Change in Default Rate - Value 3

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** Number of defaulted loans to total loan portfolio

**Measures:** Current year compared to national average (8.8%)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
<7%	5	15	
< 8.8%	4	12	
8.80%	2.5	7.5	
9%-10%	1.5	4.5	
12% or greater	1	3	<b>TRIGGER</b>

**Data Requirements:** Total dollar amount of defaulted loans vs. loans in repayment

**Data Source:** NSLDS vs. FMS

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Cohort Default Rate - Value 3

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** Cohort Default Rate

**Measures:** Cohort default rate for current year

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
<7%	5	15	
< 8.8%	4	12	
8.80%	2.5	7.5	
9%-10%	1.5	4.5	
12% or greater	1	3	<b>TRIGGER</b>

**Data Requirements:** Total dollar amount of defaulted loans vs. loans in repayment

**Data Source:** NSLDS

**Issues/Comments:** Data integrity and calculation accuracy



## Details for High Performance Indicators - continued

### Delinquency Rate - Value 3

**Financial Partner:** Lenders, Servicers

**Risk factors/ criteria:** Like-sized partner comparison

**Measures:** Compare % delinquency rate to Cohort Rate

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
< Cohort Average	5	15	
Equal to Cohort Average	2.5	7.5	
>Cohort Average	1	3	No Trigger

**Data Requirements:** % of delinquent loans

**Data Source:** NSLDS

**Issues/Comments:** Changes in delinquency categories change effective July 1, 2000 in NSLDS (need definitions for Risk modeling objectives  
New requirement



## Details for High Performance Indicators - continued

### Loan Status - Value 2

**Financial Partner:** Guaranty Agencies, Lenders

**Risk factors/ criteria:** Discrepancies across data source

**Measures:** Total loans and % of loans out of school more than six months but still carrying an in-school or in-grace category

SFA Benchmarks:	Points	xValue	
Zero	5	10	
< 2%	4	8	
2%-3%	2.5	5	
4%-5%	1.5	3	
> 5%	1	2	<b>TRIGGER</b>

**Data Requirements:** Outstanding Principal Balance where loan status is in-school" or in-grace and where the separation date in > 6 months

**Data Source:** SSCR vs. NSLDS

**Issues/Comments:** Tags in NSLDS



## Details for High Performance Indicators - continued

### Change in Servicer - Value 2

**Financial Partner:** Guaranty Agencies, Lenders

**Risk factors/ criteria:** Change in quality of loan servicing

**Measures:** New servicer performance rating - review results

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	<b>TRIGGER</b>
No Change	5	10	
New Servicer - PASS	5	10	
New Servicer - FAIL	1	2	

**Data Requirements:** 707c Servicer Assoc.. Report

**Data Source:** PEPS

**Issues/Comments:** New Requirement  
PEPS for Name of Servicers  
Date of last audit  
NSLDS-match lender to SVER



## Details for High Performance Indicators - continued

### Problems Submitting ED-799 - Value 2

<b>Financial Partner:</b>	Lenders
<b>Risk factors/ criteria:</b>	Problems submitting ED799 799 Errors/Inaccuracies
<b>Measures:</b>	Rejected Form 799's the over period Billing under more than one ID Form 799's submitted late Degree of lateness (length of time)
<b>SFA Benchmarks:</b>	>10% increase or decrease
<b>Data Requirements:</b>	Date and Rejection of 799 Report Date vs. Report Qtr
<b>Data Source:</b>	FFEL
<b>Issues/Comments:</b>	Edits will change with revision of 799 and implementation of FMS LID are currently tracked manually



## Details for High Performance Indicators - continued

### Trend analysis of Rejected Claims - Value 2

**Financial Partner:** Guaranty Agencies

**Risk factors/ criteria:** Potential problems with loan servicing or due diligence

**Measures:** Percent change in rejected claims over time (3-5 years)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Any Decrease	5	15	
No Increase/No Decrease	4	12	
Increase 0-5%	2.5	7.5	
Increase 5-10%	1.5	4.5	
Increase 10% or More	1	3	<b>TRIGGER</b>

**Data Requirements:** Rejected claims by FY

**Data Source:** FFEL

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Claim Payment History - Value 2

**Financial Partner:** Guaranty Agencies, Lenders

**Risk factors/ criteria:** Number of defaulted loans to total loan portfolio

**Measures:** Percent of change over time(3-5years)

<b>SFA Benchmarks:</b>	<b>Points</b>	<b>xValue</b>	
Any Increase	5	20	
No Increase/No Decrease	4	16	
Decrease 0-5%	2.5	10	
Decrease 5-10%	1.5	6	
Decrease 10% or More	1	4	<b>TRIGGER</b>

**Data Requirements:** Ending balance for defaulted loans/total loan portfolio

**Data Source:** FMS

**Issues/Comments:** None





## Details for High Performance Indicators - continued

### Claim Payment Age - Value 2

**Financial Partner:** Guaranty Agencies, Lenders

**Risk factors/ criteria:** Effectiveness of collections efforts on defaulted loans

**Measures:** Average number of days of claims for current year

SFA Benchmarks:	Points	xValue	
< 30 days	5	10	
30 days-136 days	4	8	
137 days - 288 days	2.5	5	
289 days - 365 days	1.5	3	
> 365 days	1	2	TRIGGER

**Data Requirements:** Age of Claims

**Data Source:** NSLDS

**Issues/Comments:** None



## Details for High Performance Indicators - continued

### Program Review/Audit Finding - Value 2

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** Indication of Fraud, Failure to Submit a required Audit

**Measures:** Never been audited, or 5 years since last audit  
Outstanding audit findings (Non-compliance and Financial)  
Failure to Submit a Required Audit

<b>SFA Benchmarks:</b>		<b>Points</b>	<b>xValue</b>	
	No Findings	5	10	
	Audit Findings (Non-compliance and/or Financial)	2	4	
	Failure to Submit required Audit (within 12 months)	1	2	<b>TRIGGER</b>
	Never been or 5 years since last SFA Review	1	2	<b>TRIGGER</b>

**Data Requirements:** Date of Last Review  
Deficiency Codes  
No Review Date entered  
Date, deficiencies and liabilities, paid and open or closed status of past reviews

**Data Source:** PEPS

**Issues/Comments:** Currently not recorded or tracked systematically  
If past reviews and audits are given high values, we successfully will have predicted the past



## Details for High Performance Indicators - continued

### EDP Review Finding - Value 2

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** Indication of Fraud, Failure to Submit a required Audit

**Measures:** Never been audited, or 5 years since last audit  
Outstanding audit findings (Non-compliance and Financial)  
Failure to Submit a Required Audit

**SFA Benchmarks:**

	Points	xValue	
Findings	5	10	
EDP Review Findings	2	4	
Never been or 5 years since last EDP Review	1	2	<b>TRIGGER</b>

**Data Requirements:** Date of Last Review  
Deficiency Codes  
No Review Date entered  
Date, deficiencies and liabilities, paid and open or closed status of past reviews

**Data Source:** PEPS

**Issues/Comments:** EDP Reviews are new  
Currently not recorded or tracked systematically



## Details for High Performance Indicators - continued

### Change in Error Rate - Value 1

**Financial Partner:** Guaranty Agencies, Lenders, Servicers

**Risk factors/ criteria:** Accuracy of reported data or data entry

**Measures:** Level of passed edit checks in system

SFA Benchmarks:	Points	xValue	
98%-100%	5	5	
96%-97%	4	4	
93%-95%	3	3	
90%-92%	2	2	
Equal or less then 90%	1	1	No Trigger

**Data Requirements:** Number of Errors by type

**Data Source:** NSLDS (Form 2000) for G.A.s  
FFEL (ED 799) for Lenders and Servicers

**Issues/Comments:** Edits for Form 2000 will change from current 1189/1130 edits in FFEL for G.A.s



Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Model

Technical Requirements

Implementation Strategy



## Technical Requirements

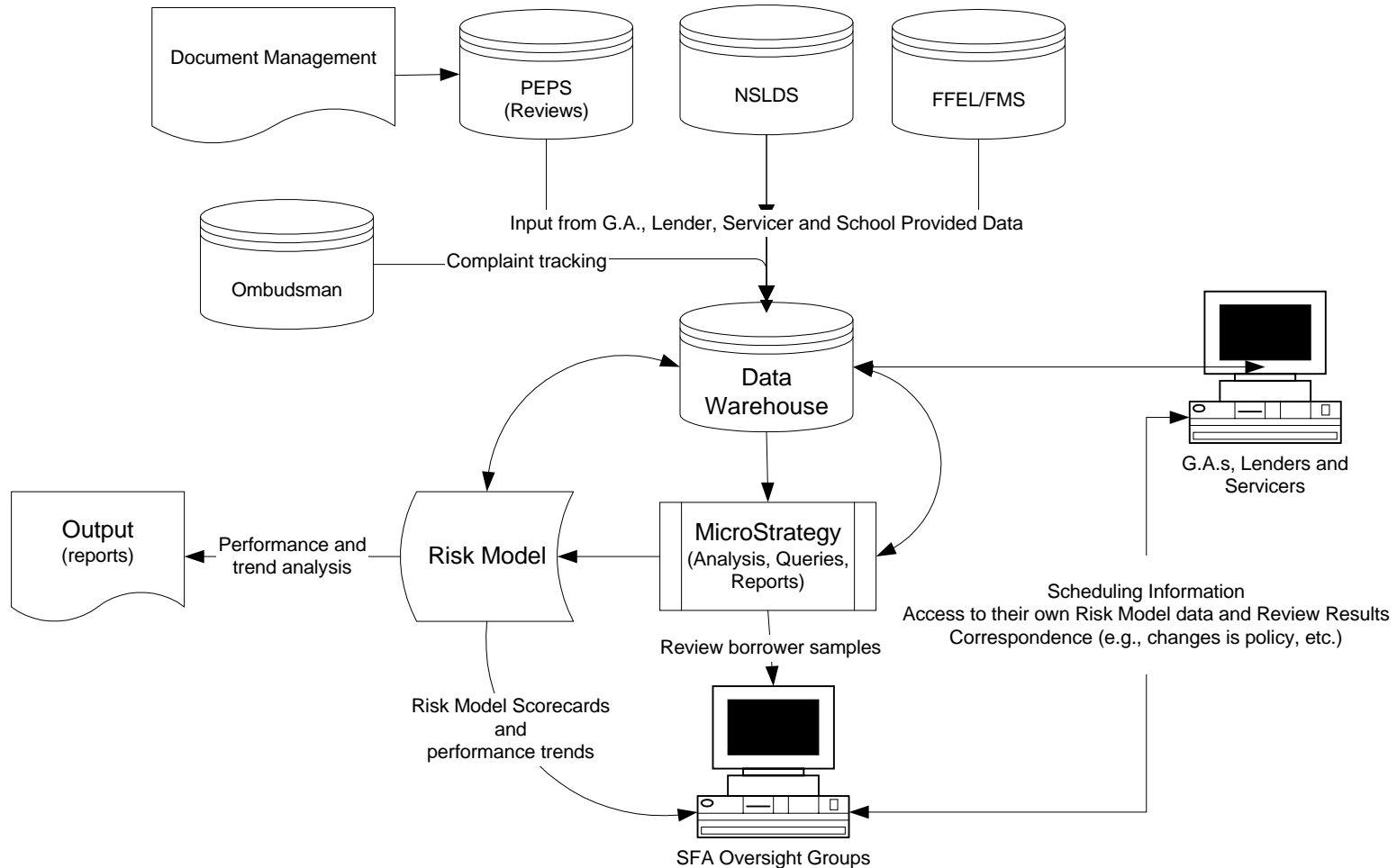
**The risk modeling and review reengineering technical requirements should be implemented in coordination with other SFA projects to ensure accurate and timely data and reporting, including:**

- Financial Partners Data Mart.
- Document Management system.
- Oracle Financial Management System (FMS).
- Ombudsman complaint tracking system.
- NSLDS Data Integrity project.



## Technical Requirements - continued

**Deployment of the risk modeling and review reengineering will be aligned with the implementation of current SFA systems efforts.**





Overview

Current Environment

Improvement Opportunities

Functional Requirements

Conceptual Design

Technical Requirements

Implementation Strategy





## Implementation Strategy

**The risk modeling implementation strategy provides a guideline for the development and implementation of the risk model in conjunction with the review reengineering efforts, to develop a comprehensive program for enhanced monitoring of Financial Partners. These include:**

- Combining the Risk Modeling and Reengineering project teams for the Delivery phase.
- Establishing a Financial Partner work group to revise the current Performance Review/Audit Guides.
- Beginning to pilot the Risk Model.
- Implementing the risk modeling and review reengineering technical requirements in conjunction with current SFA systems development and enhancement efforts.



## Implementation Strategy - continued

### **Combine the Risk Modeling and Reengineering projects for the Delivery phase.**

- Identify a Joint team from both Headquarters (Oversight & Analysis) and Regional offices (Oversight & Technical Assistance) to implement the risk model in conjunction with the reengineered review process and assign work groups to:
  - Design the integrated risk modeling and reengineered review processes/guides.
  - Implement support systems in coordination with FMS and the Data Warehouse.
  - Define eligible populations of G.A.s, Lenders, and Servicers for review, by type to incorporate into the risk modeling logic:
    - Request a task order to develop an NSLDS report to obtain quarterly updates of associated G.A.s, Lenders and Servicers.
    - Request Servicers to complete the Servicer information on Ed 799 by type of service provided (currently optional data).
- Continue gathering data on associated G.A.s, Lenders and Servicers on a quarterly or semi-annual basis, once up-to-date information is available.



## Implementation Strategy - continued

### **Establish a Financial Partner work group to revise the current Performance Review/Audit Guides (including G.A.s, Lenders, and Servicers).**

- Begin to initiate changes in regulations regarding mandated G.A. reviews of lenders (“top 10”) to help eliminate redundancies and potential conflicts.
- Meet with G.A.s, Lenders and Servicers to coordinate risk modeling efforts, such as:
  - Performance indicators used in risk modeling.
  - Improved efficiencies in implementing a comprehensive enhanced monitoring program.
  - Coordinated scheduling to reduce the burden of reviews and audits on the Financial Partners.
  - Incentives that could be implemented to improve overall FP performance.
  - Improve FP reporting methods to increase electronic data exchange and reduce paperwork.



## Implementation Strategy - continued

### **Begin to implement pilot review schedules and criteria in support of the Risk Modeling project.**

- Pilot use of the prototype Risk Model to validate/refine calculation based on recent and current reviews.
- Develop an annual schedule for reviews and coordinate national teams (consisting of both Headquarters and regional office team members).
- Develop extracts to provide automated downloads of required data.



## Implementation Strategy - continued

**Implement the risk modeling and review reengineering technical requirements in conjunction with current SFA systems development and enhancement efforts.**

- Implement the risk modeling and review reengineering technical requirements in coordination with other SFA projects to ensure accurate and timely data and reporting, including:
  - Financial Partners Data Mart.
  - Document Management system.
  - Oracle Financial Management System (FMS).
  - Ombudsman complaint tracking system.
  - NSLDS Data Integrity project.
- Select risk modeling software in consideration of the current technical environment and available or planned support systems to minimize costs of implementation.